

DATA REQUEST NUMBER TO REFERENCE: BPA-ID-1

RESPONSE BY:

Scott Wright – Idaho Power Company

ORIGINAL DATA REQUEST: Please provide a copy of the Idaho Public Utilities Commission order (and an Oregon PUC order if appropriate) supporting Idaho's weighted cost of capital.

DATA RESPONSE:

Idaho Power Company settled IPUC Case No. IPC-E-07-08 regarding several issues, however; Rate of Return was not one of those issues. The ROR remained at the settled rate of 8.1% in IPUC Case No. IPC-E-05-28. The Composite Cost of Capital used in IPUC Case No. IPC-E-07-08 was updated to reflect an ROR of 8.1%. Attached are IPUC Commission Order Numbers 30035 and 30508 along with the original Composite Cost of Capital filed in IPUC Case No. IPC-E-07-08.

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-05-28
AUTHORITY TO INCREASE ITS BASE)
RATES AND CHARGES FOR ELECTRIC)
SERVICE IN THE STATE OF IDAHO) ORDER NO. 30035
_____)**

On October 28, 2005, Idaho Power Company filed an Application seeking authority to increase its “base” rates¹ an average of 7.8%, or an annual revenue increase of approximately \$44 million. On January 20, 2006, the Commission issued its scheduling Order that suspended the rate increase and set the matter for public hearing. On February 27, 2006, all the parties entered into a settlement Stipulation that resolved all of the issues in the case. As set out in greater detail below, the parties agreed in the Stipulation that Idaho Power should be allowed to increase its Idaho jurisdictional base rates by \$18.1 million annually. To recover the agreed revenue requirement, the parties recommended a uniform rate increase to most customer classes of approximately 3.2%. On March 9, 2006, the Commission issued a notice of the settlement and invited public comment and testimony on the settlement.

Based upon our review of the initial Application, the settlement Stipulation, the testimony of the parties and the public comments, we approve the settlement Stipulation. Consequently, base rates for most classes of service shall increase an average of 3.2% on June 1, 2006.

BACKGROUND

A. The Original Application

In its Application Idaho Power initially sought an annual revenue increase of \$43,947,847 based upon a 2005 test year. The Company asserted that it needed the additional revenue to cover its increased operating costs. The Company sought a return on rate base of 8.42%, realizing a return on common equity in the range of 11 to 12%. Order No. 29919 at 1. The Company proposed an adjusted total rate base of \$1,790,150,058. *Id.*

¹ Base rates are combined with the annual Power Cost Adjustment (PCA) rates to produce a customer’s overall energy rate. On April 12, 2006, Idaho Power filed its annual PCA Application to reduce PCA rates by an average of about 19%. Case No. IPC-E-06-7.

Turning to the proposed rate design, Idaho Power recommended that base rates for each customer class (except for dusk-to-dawn lighting and unmetered service)² increase by a uniform percentage of 7.84%. The Company also proposed that the base rates for its three special contract customers (J.R. Simplot, Micron, and the U.S. Department of Energy at the Idaho National Laboratory) also increase by 7.84%. *Id.* at 2.

The Company proposed to maintain its seasonally adjusted rate design (a 25% increase in rates to dampen demand in June, July and August) and maintain the 300 kilowatt hour (kWh) initial usage threshold for residential and small commercial customers. Idaho Power also proposed to increase the monthly service charge for residential, small commercial, large commercial and industrial customers. If approved, the monthly service charge for residential (Schedule 1) and small commercial (Schedule 7) customers would increase from \$3.30 to \$6.00 per month. For large commercial (Schedule 9) and industrial – secondary service (Schedule 19) customers, the Company proposed to increase the service charge from \$5.60 to \$12.00 per month. For industrial (primary service) customers the service charge increase would be from \$125 to \$200 per month. *Id.* at 3.

The Company also proposed several other rate design changes for the large customer classes. For large commercial customers taking secondary service (Schedule 9), the Company proposed a declining-block two-tier energy charge, and blocked demand and basic charges with no charge for the first 20 kW of billed demand and basic load capacity. For industrial customers (Schedule 19), Idaho Power proposed to increase the service charge, basic charge, and the seasonal time-of-use demand charges and energy charges. For irrigation customers (Schedule 24), Idaho Power proposes to eliminate the out-of-season demand charge and reinstate the differentiated in-season and out-of-season energy charges.

B. Parties

In Order No. 29919 dated November 22, 2005, the Commission issued its Notice of Application and established a deadline for intervention. Besides Idaho Power and the Staff, the Commission granted intervention³ to the following parties:

² Rates for dusk-to-dawn (Schedule 15) and unmetered service (Schedule 40) would not be increased.

³ On December 6, 2005, Time Warner Telecom of Idaho filed a Petition to Intervene and Idaho Power opposed the intervention. Before the Commission ruled on the Petition and objection, Time Warner withdrew its Petition pursuant to Rule 67, IDAPA 31.01.01.067.

Idaho Power Company:	Barton L. Kline Monica B. Moen
Commission Staff:	Donald L. Howell, II Cecelia A. Gassner Deputy Attorneys General
Idaho Irrigation Pumpers Association:	Randall C. Budge Eric L. Olson Racine, Olson, Nye, Budge & Bailey, Chartered
Industrial Customers of Idaho Power:	Peter J. Richardson Richardson & O'Leary, LLP
Micron Technology:	Conley E. Ward Givens Pursley LLP
U.S. Department of Energy:	Lawrence A. Gollomp Assistant General Counsel
Northwest Energy Coalition:	William M. Eddie, Esq. Advocates for the West
Kroger Company:	Michael L. Kurtz Kurt J. Boehm Boehm, Kurtz & Lowry

C. Course of Proceedings

On November 22, 2005, the Commission issued its Notice of Application and a deadline for intervention. The initial Notice of Parties was issued on December 21, 2005. On January 5, 2006, the parties convened a telephonic scheduling conference. Based upon the agreement of the parties, the Commission issued its scheduling Order No. 29957 on January 20, 2006. Pursuant to the Commission's scheduling Order, the Staff convened public workshops for the purpose of providing information about the rate case in Boise, Twin Falls and Pocatello.

The parties held two settlement conferences on February 7 and 14, 2006. All of the parties or their representatives attended or participated in the settlement conferences. As a result of the settlement negotiations, all the parties executed a settlement Stipulation. The Stipulation and Motion for Approval of Stipulation were filed by Idaho Power on February 27, 2006. The

Motion urged the Commission to adopt and approve the Stipulation in its entirety. On March 1 and 2, 2006, respectively, the Commission Staff and the Irrigators filed testimony in support of the settlement Stipulation. On March 16, 2006, Idaho Power filed its testimony in support of the Stipulation.

On March 9, 2006, the Commission issued Order No. 29995 serving as a public notice that the parties had entered into a settlement Stipulation. In its Order, the Commission invited public comment regarding the Stipulation be filed no later than March 30, 2006. This Order also required that all petitions for intervenor funding be filed no later than April 19, 2006.

On April 11, 2006, the Commission convened its technical hearing on the settlement Stipulation. All the parties except Kroger Company entered appearances and participated in the hearing. The Commission also convened public hearings in Boise, Pocatello and Twin Falls on April 11, 24, and 26, 2006, respectively.

THE SETTLEMENT STIPULATION

1. Revenues, Test Year and Adjustments. All the parties agree that Idaho Power should be allowed to increase its Idaho jurisdictional base rates to recover \$18.1 million in additional annual revenue. The parties did not set a return on common equity but agreed to utilize an overall rate of return of 8.1%. Stipulation at ¶ 6. The parties agreed that Idaho Power's system net power supply cost is \$45,279,800. This amount is calculated by subtracting the Company's Cloud Seeding Program in the amount of \$1.9 million from the net power supply cost of \$47,179,800 (including the Bennett Mountain Power Plant). The parties also agreed to use 2005 system loads in the amount of 14,819,152 MWh as proposed in the Company's Application. *Id.* at ¶ 6(a) and (b).

The parties agreed to exclude incentive pay for senior managers from the test year revenue requirement. The parties also agreed that it is reasonable to include an employee incentive component in this and future test years "so long as such incentive component is based upon goals that benefit customers and the amounts payable [to employees] for achieving the goals are limited to reasonable 'target' or medium goals." *Id.* at ¶ 6(e). The parties further agreed to examine the Power Cost Adjustment (PCA) load-growth rate as part of the Company's PCA application in Case No. IPC-E-06-7. *Id.* at ¶ 6(d).

2. Rate Spread. To recover the agreed-upon \$18.1 million revenue requirement, the parties recommended a uniform percentage increase for each customer class (except Schedules

15 and 40) and the special contract customers of approximately 3.2%. *Id.* at ¶ 7. The parties also agreed that the underlying cost-of-service model filed by the Company in this proceeding “will not constitute precedent in any subsequent general rate case.” *Id.* The parties specifically recognize that any party’s failure to specifically object to the Company’s cost-of-service analysis in this case will not constitute a waiver in any future general rate case proceeding. *Id.*

3. Rate Design. With three exceptions, the parties agreed in the settlement Stipulation that the rate design proposals in the Company’s Application should be implemented, albeit with the smaller percentage increase. First, the monthly service charge for residential (Schedule 1) and small commercial (Schedule 7) customers will increase from \$3.30 per month to \$4.00 per month. Idaho Power further agreed to not file for an increase in the \$4.00 service charge for at least two years from the date of the Commission’s final Order in this matter. *Id.* at ¶ 8(a). Second, the parties stipulated that the average 3.2% increase for large commercial (Schedule 9) customers will first be spread upon the non-energy rate components and any residual revenue requirement will be spread upon the energy related rate components. *Id.* at ¶ 8(b).

Third, the parties agreed that implementation of the proposed \$10 “continuous service reversion” program⁴ described in the testimony of Company witness Timothy Tatum will be delayed for a period of 60 days from the date of the Commission’s final Order. The delay will allow landlords and property managers to be notified of the optional program prior to its actual implementation.

Idaho Power also agreed no later than November 1, 2006 to convene a working group to review the current operations and results of the Irrigation Peak Rewards program. The Stipulation provided that any proposed modifications to the program would be presented to the Company’s Energy Efficiency Advisory Group and ultimately to the Commission “in time for such modifications to be in effect for the 2007 irrigation season.” *Id.* at ¶ 10.

The parties assert the settlement Stipulation represents a compromise of their respective positions in this case. They urge the Commission to approve the Stipulation in its entirety. They maintain that the settlement Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable. Motion at 3.

⁴ This optional program allows landlords or property managers to have customer accounts automatically transferred to them when their tenants terminate electric service. Landlords and property managers subscribing to this optional service will be notified when the account reverts to them. Tatum Direct at 9-13.

THE TECHNICAL HEARING

The Commission held its technical hearing on April 11, 2006. As previously mentioned, all the parties except Kroger entered appearances. The Commission Staff, the Irrigators and the Company presented testimony in support of the settlement Stipulation.

1. The Staff. The Utilities Division Administrator, Randy Lobb, urged the Commission to adopt the Stipulation. He testified that the Staff had conducted a comprehensive audit of test year results and concluded that the proposed settlement “is in public interest and should be approved by the Commission.” Tr. at 43. He pointed out the agreed revenue requirement was \$26.9 million lower than that originally proposed by the Company. Tr. at 45. He asserted the \$18.1 million revenue requirement reasonably balanced the needs of the Company for more revenue while ensuring that ratepayers pay rates based upon reasonable costs. Tr. at 48.

Mr. Lobb explained that the parties could not agree that the methodology used in the Company’s cost of service studies properly allocated costs to the individual customer classes. Tr. at 55. Consequently, the parties agreed to spread the revenue requirement on a uniform basis to all customer classes except Schedules 15 and 40. *See* Staff Exhibit 102.

2. Idaho Irrigation Pumpers Association. The Irrigators filed a Motion to spread the testimony of their expert witness, Tony Yankel, without requiring him to travel to Boise. No party objected to the Motion, and it was granted. Mr. Yankel’s testimony supported the Stipulation.

3. Idaho Power. The Company’s Vice-President of Regulatory Affairs, John R. Gale, testified in support of the Stipulation. Mr. Gale stated that the Stipulation provides the Company with the ability to economically finance new investments in infrastructure in its system. He further stated that the Stipulation reflected a satisfactory perspective on the net power supply cost and overall rate of return. According to Mr. Gale, the Company believes that the compromised settlement produces the correct alignment of interests between ratepayers and shareholders.

THE PUBLIC COMMENTS AND TESTIMONY

Only one person testified at the public hearings and he did not oppose the proposed rate increase. The Commission also received about 50 written comments: 46 before the

settlement and 4 after the settlement. The four comments received after publication of the Commission's Notice of Settlement all opposed the 3.2% rate increase.

Of the 46 comments the Commission received before the settlement, approximately half opposed any increase. Eight of these customers indicated that they were on fixed incomes and it was unreasonable to increase rates. Seven other customers did not necessarily oppose the 7.8% increase but suggested the increase should be distributed primarily to larger users (irrigation or industrial customers) rather than residential customers. Twelve other customers acknowledged that a more moderate increase may be necessary. They urged the Commission to review whether such an increase should be spread to larger customers or be contingent on the Company acquiring more renewable resources.

DISCUSSION AND FINDINGS

At the outset, we note that this is the first instance in our recollection of settling an Idaho Power rate case. We appreciate that the parties were able to compromise and settle the disputed issues in this case. We commend them for their efforts.

Based upon our review of the Stipulation, the supporting testimony, and the public comments, we find that the terms of the Stipulation are fair, just and reasonable. Procedural Rules 274-276, IDAPA 31.01.01.274-276. The Stipulation represents a reasonable compromise of the positions held by the parties. We find it reasonable to authorize Idaho Power to increase its jurisdictional base rates to recover \$18.1 million in additional annual revenue based upon an overall rate of return of 8.1%. We also agree and adopt the system net power supply cost of \$45,279,800 and the 2005 system load in the amount of 14,819,152 MWh.

We further find that it is appropriate to increase most rates a uniform percentage increase of approximate 3.2% (except Schedules 15 and 40). In addition, the Commission accepts the three rate design exceptions dealing with the monthly service charge, the rates for Schedule 9 customers, and the 60-day delay before imposing the \$10 continuous service reversion charge.

We also order Idaho Power to convene a working group to examine the Irrigation Peak Rewards Program. If the working group and the Company's Energy Efficiency Advisory Group recommend improvements to the program, we urge Idaho Power to file such improvements in advance of the 2007 irrigation season.

INTERVENOR FUNDING

The Irrigators were the only party to file a Petition for Intervenor Funding. The Irrigators sought \$32,742 in intervenor funding. This amount comprises \$6,867 in legal fees (37.8 hours) and consulting fees in the amount of \$25,875 (207 hours x \$125/hr.). No party filed an objection to the Irrigators' Petition for Intervenor Funding.

Idaho Code § 61-617A sets out the standards for intervenor funding and allows the Commission to award up to \$40,000 in intervenor funding. To award intervenor funding, the Commission must find that: (1) the Irrigators materially contributed to the decision rendered by the Commission; (2) the costs of intervention are reasonable and that the costs represent a significant financial hardship for the Irrigators; (3) the advocacy of the Irrigators differed materially from the Commission Staff; and (4) the testimony and participation of the Irrigators addressed issues of concern to the general body of customers or a particular customer class. Rule 162, IDAPA 31.01.01.162.

In their Petition for Intervenor Funding, the Irrigators assert that they materially contributed in the case by serving discovery and participating in the settlement conferences. They also maintain that the expenses incurred are reasonable and that failure to recover the requested funds would work a financial hardship on them. Petition at 2-3. The Irrigators state that they have a balance in their bank account of \$11,599 and accounts payable exceeding \$50,000. Petition at 3. The Irrigators state that they rely solely upon dues and contributions voluntarily paid by members together with intervenor funding to participate in utility cases. *Id.* The Association only has one part-time employee "receiving a small retainer plus expenses for office space, office equipment and secretarial services. Officers and directors are elected annually and serve without compensation." *Id.* at 4. The Irrigators were proponents of forming a working group to examine Idaho Power's Irrigation Peak Rewards program. The Irrigators were also prepared to challenge the Company's cost allocation methodology, and in particular the apportionment of load growth between customer classes. *Id.* at 4-5.

Commission Findings

Based upon our review of the petition and the standards for awarding intervenor funding, we find that the Irrigators have met the standards necessary to obtain intervenor funding. As laid out in the Petition and in the testimony of Mr. Yankel, the Irrigators materially

contributed to the settlement and advocated issues different from the Commission Staff. Based upon our review of the billing statements, we find that the legal and consulting fees were reasonable and grant intervenor funding in the amount of \$32,742. We further find it reasonable for Idaho Power to recover the intervenor funding costs from the irrigation class of customers.

ULTIMATE FINDINGS OF FACT AND CONCLUSIONS OF LAW

Idaho Power Company is an electric corporation subject to the Commission's regulation under the Idaho Public Utilities Law. *Idaho Code* § 61-129. The rates of all its tariff schedule customers in the State of Idaho and its contract customers are subject to this Commission's regulation.

The Company's present rates do not provide it with an opportunity to earn a fair and reasonable return on its investment. Allowing the Company to increase its rates and charges by \$18.1 million annually will provide it with the opportunity to earn a fair and reasonable return. The 2005 test year is the appropriate test year for use in this proceeding. The Company is authorized to earn an overall rate of return of 8.1%. The Stipulation is in the public interest.

We find the Company's system net power supply cost is \$45,279,800. We further find that the Company's 2005 system load in the amount 14,819,152 MWh is reasonable for setting rates.

The Commission finds that the average 3.2% rate increase for the customer classes and special contract customers (except for Schedules 15 and 40) is just and reasonable. The Commission further finds that the other rate design issues contained in the Stipulation are fair, just and reasonable.

Finally, the Commission awards intervenor funding in the amount of \$32,742 to the Irrigation Pumpers Association. These costs shall be recovered from the irrigation customer class.

ORDER

IT IS HEREBY ORDERED that the Motion for Approval of Stipulation is granted.

IT IS FURTHER ORDERED that Idaho Power is authorized an overall rate of return of 8.1%. As set out in the approved Stipulation, the Company is authorized to recover \$18.1 million in additional annual revenue.

IT IS FURTHER ORDERED that the Company file new base rate schedules in conformance with this Order. The change in base rates shall be effective on June 1, 2006.

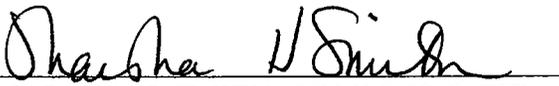
IT IS FURTHER ORDERED that the Idaho Irrigation Pumpers Association is awarded intervenor funding in the amount of \$32,742 to be recovered from customers in the irrigation class. Idaho Power is directed to pay this amount within 28 days of the date of this Order.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 12th day of May 2006.



PAUL KJELLANDER, PRESIDENT



MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) **CASE NO. IPC-E-07-08**
AUTHORITY TO INCREASE ITS RATES)
AND CHARGES FOR ELECTRIC SERVICE)
TO ELECTRIC CUSTOMERS IN THE) **ORDER NO. 30508**
STATE OF IDAHO.)

The Commission by this Order approves a Stipulation filed in Case No. IPC-E-07-08 providing for an overall increase of 5.2% in Idaho Power Company's electric service rates. On June 8, 2007, Idaho Power filed an Application requesting authority to increase its rates by 10.35% to recover an additional \$63,945,258 in annual revenue. Prior to the commencement of the technical hearing, the parties reached and filed a Stipulation providing for a 5.2% increase in the Company's rates. The parties to the Stipulation are Idaho Power Company; the Commission Staff; Idaho Irrigation Pumpers Association, Inc.; Industrial Customers of Idaho Power; Micron Technology, Inc.; and the U.S. Department of Energy. The only other party in the case, Kroger Company, did not sign the Stipulation but testified at the hearing that the company generally supports the Stipulation.

The Commission approves the Stipulation and finds its terms to be fair, just and reasonable and in the public interest. We approve new rates for Idaho Power, effective March 1, 2008, to increase the Company's annual revenue by \$32,126,654 or 5.2%. The base rates for residential customers will increase by 4.7%, and the base rates for the other classes of customers will increase by 5.65%.

Idaho Power's Application

The Company in its Application requested an overall rate increase of 10.35%, but proposed widely varying increases for different customer classes. Idaho Power proposed a 20% rate increase for three special contract customers – J.R. Simplot Company, the Department of Energy, and Micron Technology, Inc. Large commercial customers would receive a 13.1% rate increase and most other non-residential customers would receive a 15% rate increase under the Company's proposal as filed. Idaho Power proposed to increase residential customer rates by 4.5%. The Company's rate design and rate-spread proposals were based on a cost-of-service study filed with the Company's Application.

Idaho Power used a 2007 test year to establish its requested rate increase, and included in its test year 12 months of forecasted data rather than historical data. The Company requested that the Commission approve a return on rate base of 8.561% utilizing an 11.5% return on common equity to achieve its proposed additional revenue requirement of \$63.9 million.

Parties of Record

On June 25, 2007, the Commission issued a Notice of Application and Order suspending the proposed effective date for the new rates requested by Idaho Power. Petitions to Intervene were filed by the Idaho Irrigation Pumpers Association, Inc. (Irrigators); the Industrial Customers of Idaho Power (Industrial Customers); Micron Technology, Inc. (Micron); the U.S. Department of Energy (DOE); and the Kroger Company dba Fred Meyer and Smith's (Kroger). The Commission approved each of the Petitions to Intervene. *See* Order Nos. 30346 and 30378. Idaho Power and the Commission Staff are the other parties in the case.

Procedural Schedule

On August 8, 2007, the Commission issued a Notice of Scheduling and Notice of Hearing establishing deadlines for the filing of discovery and prepared testimony and a technical hearing date to commence on December 11, 2007. The Commission Staff held public workshops in Pocatello on October 1, 2007, in Twin Falls on October 2, 2007, and in Boise on October 3, 2007.

On October 19, 2007, the Commission issued Order No. 30456 granting a Joint Motion to Extend the Procedural Schedule filed by Idaho Power and the Commission Staff. The Order rescheduled the technical hearing from December 11, 2007 to January 22, 2008. The Commission also scheduled public hearings in Chubbuck, Twin Falls and Boise. The public hearing in Twin Falls was cancelled, however, when severe winter storm conditions prevented safe travel to the hearing in Twin Falls. Finally, at the request of the parties, the technical hearing was postponed one day to allow additional time for the parties to finalize the Stipulation to resolve the issues presented in the case. The technical hearing convened on January 23, 2008 in the Commission's Hearing Room in Boise. All parties except DOE appeared and were represented at the hearing.

Settlement Stipulation

The Stipulation, which was signed by all parties except Kroger, was filed shortly before the technical hearing began. Kroger's witness testified at the hearing that the company "is

generally supportive of the settlement agreement,” but believes “it is deficient in a single detail.” Tr. p. 20. The Stipulation does not address Kroger’s recommendation for optional time-of-use rates for Schedule 9, Large General Service, customers. Kroger asked the Commission to address its request for these rates in its final Order. *Id.*

The Stipulation addresses substantive issues in this case in four sections numbered 6 through 9. Section 6 addresses the revenue requirement for Idaho Power, specifying an increase in the Company’s annual revenues in the amount of \$32,126,654. Paragraphs (a) and (b) in Section 6 state Idaho Power’s net power supply cost and system load as components of the agreed-upon additional revenue requirement. The system net power supply cost used to determine the additional revenue requirement is \$34,964,671, and the system PURPA qualifying facilities expense is \$93,080,631.¹ Paragraph 6(b) states that the 2007 system firm load of 14,239,221 MWh was used in determining the increase in Idaho Power’s annual revenue requirement.

Paragraph (c) of Section 6 addresses the Company’s preference to use a forecasted test year in this case and in future rate cases. The Company’s test year was a contentious issue; Staff and most Intervenors filed testimony strongly disagreeing with Idaho Power’s test year methodology. Paragraph (c) states that the parties will participate in good faith discussions regarding a forecast test year methodology that balances the auditing concerns of the Staff and the Intervenors with the Company’s expressed desire for timely rate relief.

Paragraph (d) of Section 6 addresses the load growth adjustment rate (LGAR) that is a part of the Company’s annual power cost adjustment (PCA). The LGAR, a mechanism to remove growth-related power costs from the annual PCA calculation, has increased substantially in recent years. *See* Order No. 30215, Case No. IPC-E-06-08. The parties agree in Paragraph (d) to make a good-faith effort to develop a mechanism to adjust or replace the current LGAR to address costs of serving load growth between rate cases. For the 2008 PCA, Paragraph (d) states the LGAR will be \$62.79 per MWh applied to one-half of the load growth occurring during each month within the PCA year.

Section 7 of the Stipulation addresses the rate spread for the agreed-upon revenue requirement. For each customer class except the residential class, rates will increase

¹ PURPA, the Public Utility Regulatory Policies Act of 1978, requires Idaho Power to purchase power from independent qualifying facilities.

approximately 5.65%. Residential rates would increase by approximately 4.7%. Section 7 of the Stipulation specifically does not address the class cost-of-service model results that were filed in the case. Section 7 makes clear that agreement by the parties to the identified rate-spread does not mean that any particular cost-of-service model will constitute a precedent in a subsequent rate case.

Section 8 of the Stipulation sets forth a rate design for the various customer classes. The Stipulation provides that the existing tariff rate components for all schedules other than Schedule 1 (Residential) and Schedule 7 (Small General Service) should be increased on an equal percentage basis, except that the customer charge for Schedules 9 (Large General Service), 19 (Large Power Service) and 24 (Irrigation Service) secondary should be rounded to the nearest quarter dollar. The customer charge for Schedules 9 and 19 primary and transmission customers and Schedule 24 transmission customers would be rounded to the nearest \$5.00. The Stipulation calls for Schedule 1 and Schedule 7 customers to see an increase only in energy charges to recover the increased revenue requirement for those classes of customers.

Section 9 of the Stipulation addresses the Irrigators' recommendations for adjustments to the Company's Irrigation Peak Rewards Program. Section 9 essentially is an agreement between Idaho Power and the Irrigators to convene a working group to discuss results of the current program, to design and implement a dispatchable demand pilot program for the 2009 irrigation season, and to make improvements to marketing efforts to increase participation in the program.

Commission Findings

The Commission has reviewed the filings of record in Case No. IPC-E-07-08, including the Stipulation of the parties. The information available for the Commission's deliberation regarding the reasonableness of the Stipulation is the Commission's record of the January 23, 2008 hearing, which includes all prefiled direct and rebuttal testimony and exhibits. Commission Rule of Procedure 283 states that the Commission may add to the hearing record by reference any document in the Commission Secretary's official file, which includes all prefiled testimony and exhibits. The Commission notified the parties at the hearing it intended to include the prefiled testimony and exhibits in the record by reference pursuant to Rule 283, and hearing no objection, the Commission determined to so incorporate all prefiled testimony and exhibits. Tr. p. 6. The Commission is also informed by the transcripts of the public hearings in Chubbuck

and Boise, where Idaho Power customers were given the opportunity to address their concerns and provide testimony, and by the public comments that were filed in the case.

The Commission reviews Stipulation settlements under its Rules of Procedure 274 through 276. We review any proposed settlement “to determine whether the settlement is just, fair and reasonable, in the public interest, or otherwise in accordance with law or regulatory policy.” IDAPA 31.01.01.276. Proponents of a proposed settlement carry the burden of showing the settlement meets the standard for approval by the Commission. IDAPA 31.01.01.275.

As reflected in the record in this case, Idaho Power initially sought an increase in its annual revenue requirement of \$63.9 million, and proposed to recover the additional amount by an overall increase in customer rates of 10.35%. In its prefiled testimony, Staff recommended the Commission approve a revenue increase of \$17,452,700, requiring an overall rate increase of 2.82%, for Idaho Power’s Idaho jurisdiction services. English Direct p. 3, Exhibit 112. Staff based its case on a completely separate test year constructed on historical data rather than on the forecasted budgets provided by Idaho Power in its test year. Staff testified that the use of forecast data made the usual audit of the Company’s proposed test year difficult. Because Idaho Power “did not provide actual expenditures on which to base rates,” Staff made comparisons to other historical information, making it “very difficult if not impossible to determine if the forecast is appropriate.” Lobb Direct p. 11.

Some of the Intervenors also presented testimony on the difficulties in auditing the Company’s test year. Micron testified that using a forecast test year “introduces a host of intractable problems,” including that “(1) forecasts of this type are inherently inaccurate and unreliable, (2) they are difficult if not impossible to verify, and (3) their use in ratemaking creates a perverse set of incentives and temptations for the utility and a structural bias in the ratemaking process.” Peseau Direct pp. 7-8. The Industrial Customers testified that “it is very difficult for staff and intervenors to critically review each of the numerous forecasts that make up an overall rate filing,” and that “[m]ajor problems with forecast data are the controversies that swirl over the models as well as the many assumptions that are used to forecast costs and revenues.” Reading Direct p. 6.

Spreading any rate increase to the different classes of customers was also a contentious issue in the case. Based on its cost-of-service model results, the Company proposed

widely disparate rate increases for the different customer classes. The Company's cost-of-service results indicated the Irrigators should receive a 36.8% increase, that the special contracts customers should be given an increase of approximately 25%, and that small general service (Schedule 7) and large power service (Schedule 19) customers should be given rate increases in excess of 15%. Brilz Direct p. 3. To avoid these harsh results, Idaho Power proposed to limit the Irrigators' and special contract customers' rate increase to 20% and the rate increase for small general service and large power service to 15%. Brilz. Direct p. 4. Idaho Power recommended a 4.53% rate increase for residential customers, but that could be achieved only if the Company's recommended much larger increases were imposed on non-residential customers. Exhibit 58 p. 4.

The Company's cost-of-service model and results were not accepted by the other parties, and the Intervenor presented evidence to argue the Company's model was significantly flawed. Based on their adjustments to the cost-of-service model, the Intervenor and Staff made separate recommendations for spreading any rate increase to the different customer classes. The Irrigators recommended they be given no rate increase, that residential customers receive the system average rate increase, and that the Schedule 9 (Large General Service) and Schedule 19 (Large Power Service) customers be given a larger than average rate increase. Yankel Direct p. 25. Micron recommended that all customers except the Irrigators be given an equal percentage increase, and that the Irrigators rate increase be twice the system average. Peseau Direct p. 56. The Industrial Customers, describing Idaho Power's cost-of-service results as perverse, recommended an equal percentage increase for all customer classes as "the most equitable solution." Reading Direct p. 24. Staff recommended rate increases of approximately 6.5% to 10% for most non-residential and special contract customers, and a smaller than average rate increase for residential customers. Exhibit 118. DOE concluded, after reviewing its own cost-of-service recommendations along with those of the other parties, that "an across-the-board spread is the fairest and most reasonable method to recover any rate increase that the Commission grants to Idaho Power." Goins Rebuttal p. 4.

Testimony was presented at the January 23, 2008 hearing in support of the Stipulation's recommended 5.2% rate increase and allocation of the increase to the customer classes. Idaho Power described the \$32 million increase in annual revenue as providing "needed rate relief to the Company and viewed with the context of the other provisions is satisfactory and

fair.” Tr. p. 8. The Company supports granting the residential customers a lower than average rate increase and a larger, equal percentage increase to all the non-residential customers. Tr. pp. 9-10. Staff testified it supports the Stipulation’s 5.2% increase in Idaho Power’s revenue requirement even though Staff recommended a smaller overall increase in its prefiled testimony. Regarding allocation of the revenue increase, Staff testified the Stipulation followed what was indicated by most cost-of-service model results by giving the residential class a lower than average rate increase. Tr. p. 15.

Based on the record in this case, we find the terms of the Stipulation regarding an increase in Idaho Power’s revenue requirement and the proposed spread of the increase to the customer classes to be fair, just and reasonable and in the public interest. The overall increase of 5.2% is far below the amount requested by the Company, and is a fair compromise by the parties of highly contested issues resulting from the Company’s test year. Although Staff initially recommended a lower overall rate increase, Staff conceded appropriate adjustments to its test year would bring Staff’s recommendation to the Stipulation’s 5.2% overall increase. Tr. p. 14. The Stipulation’s resolution of significant test year and revenue requirement issues, as well as the spread of the rate increase to the customer classes, is supported by all parties as reasonable and appropriate. The Stipulation thus represents a fair compromise of significant test year, rate base and cost-of-service issues presented by the parties. We find the \$32.1 million, 5.2% increase in Idaho Power’s revenue requirement to be reasonable, as is the spread of the increase to the customer classes as set forth in the Stipulation. The specific rates we find reasonable are attached to the Stipulation and are also attached to this Order as Attachment 1.

We also find the other terms of the Stipulation to be fair and reasonable and in the public interest. Paragraphs 6(a) and (b) of the Stipulation resolve specific components – the system net power supply cost and the system firm load – used to determine the additional \$32.1 million revenue requirement. Evidence to support these discrete components was provided by Staff and the Company, and we approve them as part of the calculation for the additional revenue requirement.

Paragraphs 6(c) and (d) and Section 9 of the Stipulation resolve for this case issues that were contested by the parties, and also call for continuing discussions to resolve them for future Idaho Power rate cases. Idaho Power’s proposal to use a forecasted test year in this case was strongly resisted by Staff and most of the Intervenors, and Paragraph 6(c) is an agreement

that the parties will discuss “a forecast test year methodology that balances the auditing concerns of the Staff and the Intervenors with the need for timely rate relief expressed by the Company.” Paragraph 6(d) addresses the load growth adjustment rate in the PCA, and provides an appropriate resolution of the significant impact of the LGAR in this case while the parties review the costs of serving load growth between rate cases. Section 9 of the Stipulation obligates Idaho Power to work with the Irrigators and other interested parties to make adjustments to the Company’s Irrigation Peak Rewards Program to be implemented for the 2009 irrigation season. These terms represent fair and reasonable compromises of contested issues, and reflect good-faith efforts by the parties to work together to resolve them for future cases.

Time-of-Use Rates for Schedule 9 Customers

The Stipulation does not address Kroger’s evidence and request for time-of-use rates for Schedule 9 customers. At the technical hearing, Kroger stated its general support of the settlement agreement, but believes it is deficient by not addressing time-of-use rates for Schedule 9 primary level and transmission level customers. In its prefiled testimony, Kroger asserted that these customers already have metering in place to accommodate time-of-use rates. Noting that Schedule 19 has mandatory time-of-use rates, Kroger proposed that Schedule 9 customers be required to migrate to Schedule 19. Higgins Direct pp. 12-13. The Industrial Customers support voluntary time-of-use rates for Schedule 9 primary and transmission customers, but believe that time-of-use rates for Schedule 19 customers should also be voluntary and not mandatory. Reading Direct p. 31. Staff is not opposed to voluntary time-of-use rates for Schedule 9 primary and transmission level customers. Hessing Direct p. 13.

Idaho Power generally supports making time-of-use rates available to Schedule 9 primary and transmission customers on a voluntary basis. The Company filed an exhibit for a time-of-use proposal for Schedule 9 customers based on the Company’s original revenue increase request. Exhibit 64. The Company proposed rates 5% higher for Schedule 9 energy charges as compared to Schedule 19 energy charges, in order to “maintain the same relationship between Schedule 9 and Schedule 19 charges as is currently in place today.” Brilz Rebuttal p. 12.

Kroger testified at the hearing that Idaho Power’s proposal to set the energy charge for Schedule 9 rates 5% higher than for Schedule 19 rates is not in the public interest “because we do not believe that customers will find that rate attractive enough to actually migrate to it.”

Tr. p. 21. Rather than approve the Company's proposal for higher Schedule 9 energy rates, Kroger recommended the Commission not adopt a time-of-use rate program at all, or adopt some compromise rate between the two proposals. Tr. p. 21.

A time-of-use rate structure for Schedule 9 customers is consistent with Commission policy to provide appropriate price signals to energy consumers. The existing Schedule 19 rate structure provides energy rates for on-peak, off-peak and mid-peak consumption, reflecting the different costs to provide energy during those periods. A similar structure for Schedule 9 primary level and transmission level customers would similarly provide price signals to those customers. In addition, Schedule 9 primary level and transmission level customers already have meters in place to accommodate time-of-use rates.

There is no evidence in this case, however, to establish Schedule 9 time-of-use rates to recover the revenue requirement allocated to that class of customers by this Order. In addition, Idaho Power and the Schedule 9 customers were unable to agree on the appropriate time-of-use rate structure. Accordingly, we direct the Company to develop a time-of-use rate proposal for Schedule 9 customers and present it to the Commission. Idaho Power should include the Schedule 9 customers in that process and, if possible, present a proposal that is agreeable to the Schedule 9 customers.

Intervenor Funding

The Irrigators filed the only Petition for Intervenor Funding in this case. To further the policy of encouraging participation in all proceedings before the Commission, so that all affected customers receive full and fair representation, intervenor funding may be awarded by the Commission pursuant to *Idaho Code* § 61-617A. The Commission may order any regulated utility with annual revenues exceeding \$3.5 million to pay all or a portion of the costs of one or more intervenor parties for legal fees, witness fees and reproduction costs not to exceed a total of \$40,000. *Idaho Code* § 61-617A(2). The Commission must base its determination to make an award on a finding that the intervenor materially contributed to the decision rendered by the Commission, that the costs of intervention are reasonable and would be a significant financial hardship for the intervenor, that the recommendations made by the intervenor differed materially from the testimony and exhibits of the Commission Staff, and that the testimony and participation of the intervenor addressed issues of concern to the general body of users or

consumers. *Id.* Commission Rule of Procedure 162 provides the form and content requirements for a Petition for Intervenor Funding.

The Irrigators' Petition for Intervenor Funding sets forth in detail total expenses of intervention in excess of \$51,000. The Petition meets the form requirements of Rule 162, and summarizes the testimony and recommendations of the Irrigators. The Irrigators' witnesses included two members who participate in the Peak Rewards Program and made specific recommendations for improvements to the program. The witnesses recommended an increase in the interruptibility credit, a relaxing of participation standards, and implementation of a dispatchable interruptibility program. The Irrigators' consultant, Mr. Yankel, testified about Idaho Power's cost-of-service study, arguing that the study does not incorporate a mechanism to allocate the costs of growth to customer classes that are causing the growth on the system. Mr. Yankel also testified about the Peak Rewards Program and urged the Commission to establish time-of-day rates that would send the appropriate price signals to irrigators. The Petition for Intervenor Funding also identifies specific terms that are included in the Stipulation as the result of the Irrigators' participation in the settlement discussions and preparation of the Stipulation.

The Irrigators' Petition describes how the costs to participate in the case constitute a financial hardship for them. The Irrigators are a non-profit corporation and rely solely upon dues and contributions paid by its members, along with intervenor funding awards, to participate in rate cases.

The Petition describes how the Irrigators' testimony differed from that of the Commission Staff, and that the Irrigators' participation presented issues of concern to the general body of customers on Idaho Power's system. Staff did not file testimony addressing the Irrigators' proposed method to allocate a portion of growth-related costs to the customer classes causing the system growth, or to make improvements to the Peak Rewards Program. The Petition describes the Irrigators' proposal for improvements to the Peak Rewards Program as beneficial to all customers because the program reduces load during the summer peak, thereby reducing overall system costs. Expansion of the program would help delay the building of additional generation plant, helping to avoid a significant cost to all ratepayers.

The Commission finds that the Irrigators' Petition for Intervenor Funding meets the applicable standards for an award. The Irrigators did provide evidence on issues not addressed by Staff and that materially affected the Stipulation and thus the Commission's decision. The

Petition establishes the reasonableness of the expenses incurred by the Irrigators and that the costs to participate in the case present a financial hardship to the association. Accordingly, the Commission finds it appropriate to award intervenor funding to the Irrigators in the amount of \$40,000. Pursuant to *Idaho Code* § 61-617A(3), Idaho Power shall include the cost of this award as an expense to the irrigation class (Schedule 24) to be recovered in the Company's next general rate case proceeding.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Idaho Power Company, an electric utility, and the issues presented in this case, by the authority granted it under Title 61 of the Idaho Code and pursuant to the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

ORDER

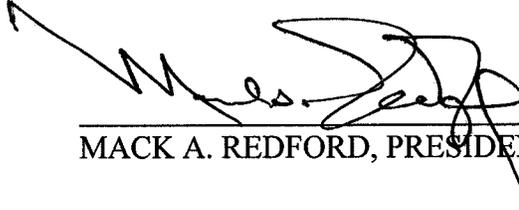
IT IS HEREBY ORDERED that the Commission accepts the Stipulation and proposed settlement filed in Case No. IPC-E-07-08 providing for an increase of \$32,126,654 in Idaho Power's annual revenue requirement, representing an aggregate base rate increase of 5.2%, effective March 1, 2008. The Company is directed to file amended tariffs in compliance with this Order.

IT IS FURTHER ORDERED that Idaho Power is directed to develop a time-of-use rate proposal for Schedule 9 customers and present it to the Commission for approval.

IT IS FURTHER ORDERED that the Irrigators' Petition for Intervenor Funding is granted in the amount of \$40,000. Pursuant to *Idaho Code* 61-617A(3), Idaho Power shall include the cost of this award as an expense to the irrigation class (Schedule 24) to be recovered in the Company's next general rate case proceeding.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 28th
day of February 2008.



MACK A. REDFORD, PRESIDENT

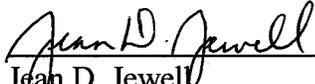


MARSHA H. SMITH, COMMISSIONER



JIM KEMPTON, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

O:IPC-E-07-08_ws

IDAHO POWER COMPANY

COMPOSITE COST OF CAPITAL
AT ALLOWED RATE OF RETURN - SUMMARIZED
Forecasted December 31, 2007 Capitalization

Line No	(1)	(2)	(3)	(4)	(5)
		<u>Capitalization Structure</u>		Embedded	Weighted
		<u>Amount</u>	<u>Percent</u>	<u>Cost</u>	<u>Cost</u>
1 Long-term Debt		1,108,460,000	49.737%	5.591%	2.781%
2 Common Equity		<u>1,120,188,586</u>	<u>50.263%</u>	11.500% *	<u>5.780%</u>
3 Total Capitalization		<u><u>\$2,228,648,586</u></u>	<u><u>100.000%</u></u>		<u><u>8.561%</u></u>

Note:

* Requested rate of return 2007 Idaho PUC rate case.